

## 1 HOUSE BILL NO. 598

2 INTRODUCED BY R. ERICKSON

3  
4 A BILL FOR AN ACT ENTITLED: "AN ACT REVISING THE TAXATION OF CERTAIN OIL AND NATURAL GAS  
5 PRODUCTION; DECREASING TO 6 MONTHS THE REDUCED TAX RATE PAID BY WORKING INTEREST  
6 OWNERS ON QUALIFYING OIL AND NATURAL GAS PRODUCTION FROM PRIMARY WELLS AND FROM  
7 HORIZONTALLY COMPLETED WELLS; PROVIDING THAT OIL AND NATURAL GAS PRODUCTION TAXES  
8 PAID BY CERTAIN WORKING INTEREST OWNERS ON PRIMARY PRODUCTION WELLS AND  
9 HORIZONTALLY COMPLETED WELLS ARE DISTRIBUTED FOR A CERTAIN PERIOD OF TIME TO CITIES,  
10 TOWNS, AND COUNTIES FOR ROAD IMPROVEMENT PROJECTS AND OTHER TRANSPORTATION  
11 PURPOSES; PROVIDING A STATUTORY APPROPRIATION; AMENDING SECTIONS 7-7-110, 15-36-303,  
12 15-36-304, 15-36-331, AND 17-7-502, MCA; AND PROVIDING AN EFFECTIVE DATE AND AN APPLICABILITY  
13 DATE."

14

15 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

16

17 **Section 1.** Section 7-7-110, MCA, is amended to read:

18 **"7-7-110. Authorization of bonds.** (1) Upon approval by the Montana transportation commission, a city,  
19 county, or consolidated city-county government may issue revenue bonds to finance the construction and  
20 construction engineering phases of projects on the urban highway system within its jurisdiction to:

21 (a) fund the share that the bond issuer might otherwise expend for proportionate matching of federal  
22 funds allocated for the construction of highways, roads, streets, or bridges;

23 (b) make a deposit to a reserve fund securing the bonds; and

24 (c) pay costs of issuance and sale of the bonds.

25 (2) The bonds may be authorized by a resolution adopted by the governing body of the bond issuer  
26 without need for authorization by the electors of the bond issuer. The resolution must establish the terms,  
27 covenants, and conditions of the bonds. The resolution may authorize that the bonds be issued under and  
28 secured by a trust indenture between the issuer and a trustee, which may be a trust company or bank having the  
29 power of a trustee inside or outside the state. The bonds may be sold at public or private sale, on terms and at  
30 prices that the governing body determines to be advantageous. The bonds do not constitute and may not be

1 included as an indebtedness or liability of the issuer for purposes of any statutory debt limitation, do not constitute  
2 general obligations, and may not be secured by the taxing power of the issuer.

3 (3) The bonds are payable from and secured by the grants or other funds payable to and received by  
4 the department of transportation and apportioned by the department of transportation to the issuer of the bonds  
5 for urban highway system improvements or for improvements conducted as provided in 15-70-101(2). The issuer  
6 may also use revenue received under [section 5] for the payment and security of the bonds. In the resolution or  
7 the trust indenture providing for the issuance of the bonds, the governing body of the issuer shall irrevocably  
8 pledge and appropriate to the debt service fund from which the bonds are payable the funds apportioned or to  
9 be apportioned to the issuer by the department of transportation and, at the option of the issuer, the revenue  
10 received under [section 5] in an amount sufficient to pay the principal of and the interest on the bonds as due.

11 (4) Bonds may be issued under this section only if:

12 (a) the bonds are issued in principal amounts and on terms that provide that the amount of principal and  
13 interest due in any fiscal year on the bonds and on any other revenue bonds of the issuer outstanding and issued  
14 under this section does not exceed the amount of the revenue pledged to the payment of the bonds and to be  
15 received in that fiscal year as estimated by the governing body of the issuer in the resolution authorizing the  
16 issuance of the bonds; and

17 (b) the final maturity of the bonds is not more than 20 years after the date of issuance of the bonds.

18 (5) Proceeds from the sale of the bonds must be used to fund urban highway system projects approved  
19 by the transportation commission through an agreement with the issuer in accordance with 60-2-127(4), and the  
20 proceeds to be used for the construction must be deposited with the department of transportation. The proceeds  
21 must be expended by the department of transportation in accordance with other applicable provisions of law.

22 (6) A city, county, or consolidated city-county government issuing bonds pursuant to this section shall  
23 certify to the director of the department of transportation and the director of the department of administration  
24 promptly upon the issuance of the bonds the principal amount and terms of the bonds and the amount of money  
25 required each fiscal year for the payment of principal and interest on the bonds.

26 (7) The powers conferred on a city, county, or consolidated city-county government by this section are  
27 in addition to and are supplemental to the powers conferred by any other general, special, or local laws. To the  
28 extent that the provisions of this section are inconsistent with the provisions of any other general, special, or local  
29 law, the provisions of this section are controlling."  
30

1           **Section 2.** Section 15-36-303, MCA, is amended to read:

2           **"15-36-303. Definitions.** As used in this part, the following definitions apply:

3           (1) "Board" means the board of oil and gas conservation provided for in 2-15-3303.

4           (2) "Department" means the department of revenue provided for in 2-15-1301.

5           (3) "Enhanced recovery project" means the use of any process for the displacement of oil from the earth  
6 other than primary recovery and includes the use of an immiscible, miscible, chemical, thermal, or biological  
7 process.

8           (4) "Existing enhanced recovery project" means an enhanced recovery project that began development  
9 before January 1, 1994.

10           (5) "Expanded enhanced recovery project" or "expansion" means the addition of injection wells or  
11 production wells, the recompletion of existing wells as horizontally completed wells, the change of an injection  
12 pattern, or other operating changes to an existing enhanced recovery project that will result in the recovery of oil  
13 that would not otherwise be recovered. The project must be developed after December 31, 1993.

14           (6) "Gross taxable value", for the purpose of computing the oil and natural gas production tax, means  
15 the gross value of the product as determined in 15-36-305.

16           (7) "Horizontal drain hole" means that portion of a well bore with 70 degrees to 110 degrees deviation  
17 from the vertical and a horizontal projection within the common source of supply, as that term is defined by the  
18 board, that exceeds 100 feet.

19           (8) "Horizontally completed well" means:

20           (a) a well with one or more horizontal drain holes; and

21           (b) any other well classified by the board as a horizontally completed well.

22           (9) "Incremental production" means:

23           (a) the volume of oil produced by a new enhanced recovery project, by a well in primary recovery  
24 recompleted as a horizontally completed well, or by an expanded enhanced recovery project, which volume of  
25 production is in excess of the production decline rate established under the conditions existing before:

26           (i) the commencement of the recompletion of a well as a horizontally completed well;

27           (ii) expansion of the existing enhanced recovery project; or

28           (iii) commencing a new enhanced recovery project; or

29           (b) in the case of any project that had no taxable production prior to commencing the enhanced recovery  
30 project, all production of oil from the enhanced recovery project.

1 (10) "Natural gas" or "gas" means natural gas and other fluid hydrocarbons, other than oil, produced at  
2 the wellhead.

3 (11) "New enhanced recovery project" means an enhanced recovery project that began development  
4 after December 31, 1993.

5 (12) "Nonworking interest owner" means any interest owner who does not share in the exploration,  
6 development, and operation costs of the lease or unit, except for production taxes.

7 (13) "Oil" means crude petroleum or mineral oil and other hydrocarbons, regardless of gravity, that are  
8 produced at the wellhead in liquid form and that are not the result of condensation of gas after it leaves the  
9 wellhead.

10 (14) "Operator" or "producer" means a person who produces oil or natural gas within this state or who  
11 owns, controls, manages, leases, or operates within this state any well or wells from which any marketable oil  
12 or natural gas is extracted or produced.

13 (15) "Post-1999 well" means an oil or natural gas well drilled on or after January 1, 1999, that produces  
14 oil or natural gas or a well that has not produced oil or natural gas during the 5 years immediately preceding the  
15 first month of qualifying as a post-1999 well.

16 (16) "Pre-1999 well" means an oil or natural gas well that was drilled before January 1, 1999.

17 (17) "Primary recovery" means the displacement of oil from the earth into the well bore by means of the  
18 natural pressure of the oil reservoir and includes artificial lift.

19 (18) "Production decline rate" means the projected rate of future oil production, extrapolated by a method  
20 approved by the board, that must be determined for a project area prior to commencing a new or expanded  
21 enhanced recovery project or the recompletion of a well as a horizontally completed well. The approved  
22 production decline rate must be certified in writing to the department by the board. In that certification, the board  
23 shall identify the project area and shall specify the projected rate of future oil production by calendar year and  
24 by calendar quarter within each year. The certified rate of future oil production must be used to determine the  
25 volume of incremental production that qualifies for the tax rate imposed under 15-36-304(5)(e).

26 (19) (a) "Qualifying production" means the first ~~12~~ 6 months of production of oil or natural gas from a well  
27 drilled after December 31, 1998, or the first ~~18~~ 6 months of production of oil or natural gas from a horizontally  
28 completed well drilled after December 31, 1998, or from a well that has not produced oil or natural gas during the  
29 5 years immediately preceding the first month of qualifying production.

30 (b) Qualifying production does not include oil production from a horizontally recompleted well.

1 (20) "Secondary recovery project" means an enhanced recovery project, other than a tertiary recovery  
2 project, that commenced or was expanded after December 31, 1993, and meets each of the following  
3 requirements:

4 (a) The project must be certified as a secondary recovery project to the department by the board. The  
5 certification may be extended only after notice and hearing in accordance with Title 2, chapter 4.

6 (b) The property to be affected by the project must be adequately delineated according to the  
7 specifications required by the board.

8 (c) The project must involve the application of secondary recovery methods that can reasonably be  
9 expected to result in an increase, determined by the board to be significant in light of all the facts and  
10 circumstances, in the amount of oil that may potentially be recovered. For purposes of this part, secondary  
11 recovery methods include but are not limited to:

12 (i) the injection of water into the producing formation for the purposes of maintaining pressure in that  
13 formation or for the purpose of increasing the flow of oil from the producing formation to a producing well bore;  
14 or

15 (ii) any other method approved by the board as a secondary recovery method.

16 (21) "Stripper natural gas" means the natural gas produced from any well that produces less than 60,000  
17 cubic feet of natural gas a day during the calendar year immediately preceding the current year. Production must  
18 be determined by dividing the amount of production from a lease or unitized area for the year immediately  
19 preceding the current calendar year by the number of producing wells in the lease or unitized area and by dividing  
20 the resulting quotient by 365.

21 (22) (a) "Stripper oil" means the oil produced from any well that produces more than 3 barrels but less  
22 than 15 barrels a day for the calendar year immediately preceding the current year if the average price for a barrel  
23 of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during a calendar quarter is less  
24 than \$30 a barrel. If the price of oil is equal to or greater than \$30 a barrel in a calendar quarter, there is no  
25 stripper tax rate in that quarter.

26 (b) The average price for a barrel is computed by dividing the sum of the daily price for west Texas  
27 intermediate crude oil as reported in the Wall Street Journal for the calendar quarter by the number of days on  
28 which the price was reported in the quarter.

29 (c) Production must be determined by dividing the amount of production from a lease or unitized area  
30 for the year immediately preceding the current calendar year by the number of producing wells in the lease or

1 unitized area and by dividing the resulting quotient by 365.

2 (23) "Stripper well exemption" or "stripper well bonus" means petroleum and other mineral or crude oil  
3 produced by a stripper well that produces 3 barrels a day or less. Production from this type of well must be  
4 determined as provided in subsection (22)(c).

5 (24) "Tertiary recovery project" means an enhanced recovery project, other than a secondary recovery  
6 project, using a tertiary recovery method that meets the following requirements:

7 (a) The project must be certified as a tertiary recovery project to the department by the board. The  
8 certification may be extended only after notice and hearing in accordance with Title 2, chapter 4.

9 (b) The property to be affected by the project must be adequately delineated in the certification according  
10 to the specifications required by the board.

11 (c) The project must involve the application of one or more tertiary recovery methods that can reasonably  
12 be expected to result in an increase, determined by the board to be significant in light of all the facts and  
13 circumstances, in the amount of crude oil that may potentially be recovered. For purposes of this part, tertiary  
14 recovery methods include but are not limited to:

15 (i) miscible fluid displacement;

16 (ii) steam drive injection;

17 (iii) micellar/emulsion flooding;

18 (iv) in situ combustion;

19 (v) polymer augmented water flooding;

20 (vi) cyclic steam injection;

21 (vii) alkaline or caustic flooding;

22 (viii) carbon dioxide water flooding;

23 (ix) immiscible carbon dioxide displacement; or

24 (x) any other method approved by the board as a tertiary recovery method.

25 (25) "Well" or "wells" means a single well or a group of wells in one field or production unit and under the  
26 control of one operator or producer.

27 (26) "Working interest owner" means the owner of an interest in an oil or natural gas well or wells who  
28 bears any portion of the exploration, development, and operating costs of the well or wells."  
29

30 **Section 3.** Section 15-36-304, MCA, is amended to read:

1           **"15-36-304. Production tax rates imposed on oil and natural gas.** (1) The production of oil and  
 2 natural gas is taxed as provided in this section. The tax is distributed as provided in 15-36-331 and 15-36-332.

3           (2) Natural gas is taxed on the gross taxable value of production based on the type of well and type of  
 4 production according to the following schedule for working interest and nonworking interest owners:

	Working	Nonworking
	Interest	Interest
7           (a) (i) first <del>42</del> <u>6</u> months of qualifying production	0.5%	14.8%
8 <u>(ii) next 6 months</u>	<u>9%</u>	<u>14.8%</u>
9 <del>(ii)</del> (iii) after 12 months:		
10          (A) pre-1999 wells	14.8%	14.8%
11          (B) post-1999 wells	9%	14.8%
12          (b) stripper natural gas pre-1999 wells	11%	14.8%
13          (c) horizontally completed well production:		
14          (i) first <del>48</del> <u>6</u> months of qualifying production	0.5%	14.8%
15 <u>(ii) next 12 months of productions</u>	<u>9%</u>	<u>14.8%</u>
16 <del>(ii)</del> (iii) after 18 months	9%	14.8%

17           (3) The reduced tax rates under subsection (2)(a)(i) on production for the first ~~42~~ 6 months of natural gas  
 18 production from a well begins following the last day of the calendar month immediately preceding the month in  
 19 which natural gas is placed in a natural gas distribution system, provided that notification has been given to the  
 20 department.

21           (4) The reduced tax rate under subsection (2)(c)(i) on production from a horizontally completed well for  
 22 the first ~~48~~ 6 months of production begins following the last day of the calendar month immediately preceding the  
 23 month in which natural gas is placed in a natural gas distribution system, provided that notification has been given  
 24 to the department.

25           (5) Oil is taxed on the gross taxable value of production based on the type of well and type of production  
 26 according to the following schedule for working interest and nonworking interest owners:

	Working	Nonworking
	Interest	Interest
29           (a) primary recovery production:		
30           (i) first <del>42</del> <u>6</u> months of qualifying production	0.5%	14.8%

1	<u>(ii) next 6 months</u>	<u>9%</u>	<u>14.8%</u>
2	<del>(ii)</del> (iii) after 12 months:		
3	(A) pre-1999 wells	12.5%	14.8%
4	(B) post-1999 wells	9%	14.8%
5	(b) stripper oil production:		
6	(i) first 1 through 10 barrels a day production	5.5%	14.8%
7	(ii) more than 10 barrels a day production	9.0%	14.8%
8	(c) (i) stripper well exemption production	0.5%	14.8%
9	(ii) stripper well bonus production	6.0%	14.8%
10	(d) horizontally completed well production:		
11	(i) first <del>48</del> <u>6</u> months of qualifying production	0.5%	14.8%
12	<u>(ii) next 12 months</u>	<u>9%</u>	<u>14.8%</u>
13	<del>(ii)</del> (iii) after 18 months:		
14	(A) pre-1999 wells	12.5%	14.8%
15	(B) post-1999 wells	9%	14.8%
16	(e) incremental production:		
17	(i) new or expanded secondary recovery production	8.5%	14.8%
18	(ii) new or expanded tertiary production	5.8%	14.8%
19	(f) horizontally recompleted well:		
20	(i) first 18 months	5.5%	14.8%
21	(ii) after 18 months:		
22	(A) pre-1999 wells	12.5%	14.8%
23	(B) post-1999 wells	9%	14.8%
24	(6) (a) The reduced tax rates under subsection (5)(a)(i) for the first <del>42</del> <u>6</u> months of oil production from		
25	a well begins following the last day of the calendar month immediately preceding the month in which oil is pumped		
26	or flows, provided that notification has been given to the department.		
27	(b) (i) The reduced tax rates under subsection (5)(d)(i) on oil production from a horizontally completed		
28	well for the first <del>48</del> <u>6</u> months of production begins following the last day of the calendar month immediately		
29	preceding the month in which oil is pumped or flows if the well has been certified as a horizontally completed well		
30	to the department by the board.		

1 (ii) The reduced tax rate under subsection (5)(f)(i) on oil production from a horizontally recompleted well  
2 for the first 18 months of production begins following the last day of the calendar month immediately preceding  
3 the month in which oil is pumped or flows if the well has been certified as a horizontally recompleted well to the  
4 department by the board.

5 (c) Incremental production is taxed as provided in subsection (5)(e) only if the average price for each  
6 barrel of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during a calendar quarter  
7 is less than \$30 a barrel. If the price of oil is equal to or greater than \$30 a barrel in a calendar quarter as  
8 determined in subsection (6)(d), then incremental production from pre-1999 wells and from post-1999 wells is  
9 taxed at the rate imposed on primary recovery production under subsections ~~(5)(a)(ii)(A)~~ (5)(a)(iii)(A) and  
10 ~~(5)(a)(ii)(B)~~ (5)(a)(iii)(B), respectively, for production occurring in that quarter, other than exempt stripper well  
11 production.

12 (d) (i) Stripper well exemption production is taxed as provided in subsection (5)(c)(i) only if the average  
13 price for a barrel of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during a  
14 calendar quarter is less than \$38 a barrel. If the price of oil is equal to or greater than \$38 a barrel, there is no  
15 stripper well exemption tax rate and oil produced from a well that produces 3 barrels a day or less is taxed as  
16 stripper well bonus production.

17 (ii) Stripper well bonus production is subject to taxation as provided in subsection (5)(c)(ii) only if the  
18 average price for a barrel of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during  
19 a calendar quarter is equal to or greater than \$38 a barrel.

20 (e) For the purposes of subsections (6)(c) and (6)(d), the average price for each barrel must be  
21 computed by dividing the sum of the daily price for west Texas intermediate crude oil as reported in the Wall  
22 Street Journal for the calendar quarter by the number of days on which the price was reported in the quarter.

23 (7) (a) The tax rates imposed under subsections (2) and (5) on working interest owners and nonworking  
24 interest owners must be adjusted to include the total of the privilege and license tax adopted by the board of oil  
25 and gas conservation pursuant to 82-11-131 and the derived rate for the oil, gas, and coal natural resource  
26 account as determined under subsection (7)(b).

27 (b) The total of the privilege and license tax and the tax for the oil, gas, and coal natural resource account  
28 may not exceed 0.3%. The base rate for the tax for oil, gas, and coal natural resource account funding is 0.08%,  
29 but when the rate adopted pursuant to 82-11-131 by the board of oil and gas conservation for the privilege and  
30 license tax:

1 (i) exceeds 0.22%, the rate for the tax to fund the oil, gas, and coal natural resource account is equal  
2 to the difference between the rate adopted by the board of oil and gas conservation and 0.3%; or

3 (ii) is less than 0.18%, the rate for the tax to fund the oil, gas, and coal natural resource account is equal  
4 to the difference between the rate adopted by the board of oil and gas conservation and 0.26%.

5 (c) The board of oil and gas conservation shall give the department at least 90 days' notice of any  
6 change in the rate adopted by the board. Any rate change of the tax to fund the oil, gas, and coal natural resource  
7 account is effective at the same time that the board of oil and gas conservation rate is effective."  
8

9 **Section 4.** Section 15-36-331, MCA, is amended to read:

10 **"15-36-331. Distribution of taxes.** (1) (a) ~~For~~ Except as provided in [section 5], for each calendar  
11 quarter, the department shall determine the amount of tax, late payment interest, and penalties collected under  
12 this part.

13 (b) For the purposes of distribution of oil and natural gas production taxes to county and school district  
14 taxing units under 15-36-332 and to the state, the department shall determine the amount of oil and natural gas  
15 production taxes paid on production in the taxing unit.

16 (2) (a) The amount of oil and natural gas production taxes collected for the privilege and license tax  
17 pursuant to 82-11-131 must be deposited, in accordance with the provisions of 15-1-501, in the state special  
18 revenue fund for the purpose of paying expenses of the board, as provided in 82-11-135.

19 (b) The amount of the tax for the oil, gas, and coal natural resource account established in 90-6-1001  
20 must be deposited in the account.

21 (3) (a) For each tax year, the amount of oil and natural gas production taxes determined under  
22 subsection (1)(b) is allocated to each county according to the following schedule:

	<del>2005</del>	<del>2006 and</del>
		<del>succeeding</del>
		<del>tax years</del>
26 Big Horn	<del>45.04%</del>	45.05%
27 Blaine	<del>58.11%</del>	58.39%
28 Carbon	<del>48.93%</del>	48.27%
29 Chouteau	<del>57.65%</del>	58.14%
30 Custer	<del>80.9%</del>	69.53%

1	Daniels	<del>49.98%</del>	50.81%
2	Dawson	<del>50.64%</del>	47.79%
3	Fallon	<del>41.15%</del>	41.78%
4	Fergus	<del>83.52%</del>	69.18%
5	Garfield	<del>48.81%</del>	45.96%
6	Glacier	<del>64.74%</del>	58.83%
7	Golden Valley	<del>57.41%</del>	58.37%
8	Hill	<del>65.33%</del>	64.51%
9	Liberty	<del>59.73%</del>	57.94%
10	McCone	<del>52.86%</del>	49.92%
11	Musselshell	<del>51.44%</del>	48.64%
12	Petroleum	<del>54.62%</del>	48.04%
13	Phillips	<del>53.78%</del>	54.02%
14	Pondera	<del>70.89%</del>	54.26%
15	Powder River	<del>62.17%</del>	60.9%
16	Prairie	<del>39.73%</del>	40.38%
17	Richland	<del>46.72%</del>	47.47%
18	Roosevelt	<del>46.06%</del>	45.71%
19	Rosebud	<del>38.69%</del>	39.33%
20	Sheridan	<del>47.54%</del>	47.99%
21	Stillwater	<del>54.35%</del>	53.51%
22	Sweet Grass	<del>60.24%</del>	61.24%
23	Teton	<del>48.4%</del>	46.1%
24	Toole	<del>57.14%</del>	57.61%
25	Valley	<del>54.22%</del>	51.43%
26	Wibaux	<del>48.68%</del>	49.16%
27	Yellowstone	<del>48.06%</del>	46.74%
28	All other counties	<del>50.15%</del>	50.15%

29           (b) The oil and natural gas production taxes allocated to each county must be deposited in the state  
30 special revenue fund and transferred to each county for distribution, as provided in 15-36-332.

1 (4) The department shall, in accordance with the provisions of 15-1-501, distribute the state portion of  
 2 oil and natural gas production taxes remaining after the distributions pursuant to subsections (2) and (3) as  
 3 follows:

4 (a) for each fiscal year through the fiscal year ending June 30, 2011, to be distributed as follows:

5 (i) 1.23% to the coal bed methane protection account established in 76-15-904;

6 (ii) 2.95% to the reclamation and development grants special revenue account established in 90-2-1104;

7 (iii) 2.95% to the orphan share account established in 75-10-743;

8 (iv) 2.65% to the state special revenue fund to be appropriated to the Montana university system for the  
 9 purposes of the state tax levy as provided in 20-25-423; and

10 (v) all remaining proceeds to the state general fund;

11 (b) for fiscal years beginning after June 30, 2011, to be distributed as follows:

12 (i) 4.18% to the reclamation and development grants special revenue account established in 90-2-1104;

13 (ii) 2.95% to the orphan share account established in 75-10-743;

14 (iii) 2.65% to the state special revenue fund to be appropriated to the Montana university system for the  
 15 purposes of the state tax levy as provided in 20-25-423; and

16 (iv) all remaining proceeds to the state general fund."

17

18 **NEW SECTION. Section 5. Distribution of taxes from certain primary wells and horizontally**  
 19 **completed wells to local governments -- uses of revenue -- appropriation.** (1) For each calendar quarter,  
 20 the department shall determine the amount of tax, late payment interest, and penalties collected under  
 21 15-36-304(2)(a)(ii), (2)(c)(ii), (5)(a)(ii), and (5)(d)(ii) on working interest owners for distribution under this section.  
 22 Distributions under this section do not apply to oil and natural gas production taxes imposed on nonworking  
 23 interest owners.

24 (2) The amount of oil and natural gas production taxes collected for the privilege and license tax pursuant  
 25 to 82-11-131 must be deposited, in accordance with the provisions of 15-1-501, in the state special revenue fund  
 26 for the purpose of paying expenses of the board, as provided in 82-11-135.

27 (3) The department shall, in accordance with the provisions of 15-1-501, distribute the remaining portion  
 28 of oil and natural gas production taxes remaining after the distribution pursuant to subsection (2) of this section  
 29 as follows:

30 (a) 2.63% to the reclamation and development grants special revenue account established in 90-2-1104;

1 (b) 2.63% to the orphan share account established in 75-10-743; and  
2 (c) the remaining amount to counties and incorporated cities and towns as provided in subsections (4)(a)  
3 and (4)(b).

4 (4) (a) Forty percent of the amount determined under subsection (3)(c) must be distributed to each  
5 county in the state as follows:

6 (i) 40% in the ratio that the rural road mileage in each county, exclusive of the national highway system  
7 and the primary system, bears to the total rural road mileage in the state, exclusive of the national highway  
8 system and the primary system;

9 (ii) 40% in the ratio that the rural population in each county outside incorporated cities and towns bears  
10 to the total rural population in the state outside incorporated cities and towns; and

11 (iii) 20% in the ratio that the land area of each county bears to the total land area of the state.

12 (b) Sixty percent of the amount determined under subsection (3)(c) must be distributed to each  
13 incorporated city and town in the state as follows:

14 (i) 50% in the ratio that the population within the corporate limits of the city or town bears to the total  
15 population within corporate limits of all the cities and towns in Montana; and

16 (ii) 50% in the ratio that the city or town street and alley mileage, exclusive of the national highway  
17 system and the primary system, within the corporate limits of the city or town bears to the total street and alley  
18 mileage, exclusive of the national highway system and primary system, within the corporate limits of all cities and  
19 towns in Montana.

20 (5) By the dates referred to in 15-36-332(6), the department shall, subject to the conditions of  
21 subsections (7), (10), and (11) of this section, distribute oil and natural gas production taxes allocated in this  
22 section to each county and incorporated city and town.

23 (6) The amounts determined under subsection (4) are statutorily appropriated, as provided in 17-7-502,  
24 from the state special revenue fund to the department for distribution to counties and incorporated cities and  
25 towns.

26 (7) (a) For the purpose of distributing revenue in subsections (4)(a) and (4)(b) to a consolidated  
27 city-county government the provisions of 15-70-101(3)(a) apply.

28 (b) The amount allocated by this method for the city and the county must be combined, and single  
29 quarterly payments must be made to the consolidated city-county government.

30 (8) (a) Revenue distributed under this section to counties, cities, towns, and consolidated city-county

1 governments may be used for:

2 (i) the construction, reconstruction, maintenance, and repair of rural roads or city or town streets and  
3 alleys or for the share that the city, town, county, or consolidated city-county government might otherwise expend  
4 for proportionate matching of federal funds allocated for the construction of roads or streets that are part of the  
5 primary or secondary highway system or urban extensions to those systems;

6 (ii) the purposes provided for under 7-7-110; or

7 (iii) the purchase of capital equipment related to transportation projects.

8 (b) A city, town, county, or consolidated city-county government may deposit 25% of the revenue  
9 received under this section in a restricted asset account that is carried forward until there is a need for the  
10 expenditure.

11 (c) Revenue distributed under this section may not be used for purposes other than those specified in  
12 subsections (8)(a) and (8)(b).

13 (9) If a county, city, town, or consolidated city-county government uses revenue distributed under this  
14 section for construction, reconstruction, maintenance, or repair, contracts must be awarded to the lowest  
15 responsible bidder according to applicable bidding procedures followed in all cases in which the contract is in  
16 excess of \$25,000.

17 (10) For the purposes of this section in which distribution of revenue is made on a basis related to  
18 population, the population must be determined annually for counties and biennially for cities and towns according  
19 to the latest official decennial census or the latest interim year population estimates from the Montana department  
20 of commerce as supplied by the United States bureau of the census.

21 (11) For the purposes of this section in which determination of mileage is necessary for distribution of  
22 funds, it is the responsibility of the cities, towns, counties, and consolidated city-county governments to furnish  
23 to the department of transportation a yearly certified statement indicating the total mileage within their respective  
24 areas applicable to this section. All mileage submitted is subject to review and approval by the department of  
25 transportation. The department of transportation shall report the approval of mileage to the department.

26

27 **Section 6.** Section 17-7-502, MCA, is amended to read:

28 **"17-7-502. Statutory appropriations -- definition -- requisites for validity.** (1) A statutory  
29 appropriation is an appropriation made by permanent law that authorizes spending by a state agency without the  
30 need for a biennial legislative appropriation or budget amendment.

1 (2) Except as provided in subsection (4), to be effective, a statutory appropriation must comply with both  
2 of the following provisions:

3 (a) The law containing the statutory authority must be listed in subsection (3).

4 (b) The law or portion of the law making a statutory appropriation must specifically state that a statutory  
5 appropriation is made as provided in this section.

6 (3) The following laws are the only laws containing statutory appropriations: 2-17-105; 5-11-407;  
7 5-13-403; 10-2-603; 10-3-203; 10-3-310; 10-3-312; 10-3-314; 10-4-301; 15-1-111; 15-1-113; 15-1-121;  
8 15-23-706; 15-31-906; 15-35-108; 15-36-332; [section 5]; 15-37-117; 15-38-202; 15-65-121; 15-70-101;  
9 15-70-369; 15-70-601; 16-11-509; 17-3-106; 17-3-212; 17-3-222; 17-3-241; 17-6-101; 17-7-304; 18-11-112;  
10 19-3-319; 19-6-404; 19-6-410; 19-9-702; 19-13-604; 19-17-301; 19-18-512; 19-19-305; 19-19-506; 19-20-604;  
11 20-8-107; 20-9-534; 20-9-622; 20-26-1503; 22-3-1004; 23-4-105; 23-4-202; 23-4-204; 23-4-302; 23-4-304;  
12 23-5-306; 23-5-409; 23-5-612; 23-7-301; 23-7-402; 37-43-204; 37-51-501; 39-71-503; 41-5-2011; 42-2-105;  
13 44-1-504; 44-12-206; 44-13-102; 50-4-623; 53-1-109; 53-6-703; 53-24-108; 53-24-206; 60-11-115; 61-3-415;  
14 69-3-870; 75-1-1101; 75-5-1108; 75-6-214; 75-11-313; 77-2-362; 80-2-222; 80-4-416; 80-5-510; 80-11-518;  
15 82-11-161; 87-1-513; 90-1-115; 90-1-205; 90-3-1003; and 90-9-306.

16 (4) There is a statutory appropriation to pay the principal, interest, premiums, and costs of issuing,  
17 paying, and securing all bonds, notes, or other obligations, as due, that have been authorized and issued  
18 pursuant to the laws of Montana. Agencies that have entered into agreements authorized by the laws of Montana  
19 to pay the state treasurer, for deposit in accordance with 17-2-101 through 17-2-107, as determined by the state  
20 treasurer, an amount sufficient to pay the principal and interest as due on the bonds or notes have statutory  
21 appropriation authority for the payments. (In subsection (3): pursuant to Ch. 422, L. 1997, the inclusion of  
22 15-1-111 terminates on July 1, 2008, which is the date that section is repealed; pursuant to sec. 10, Ch. 360, L.  
23 1999, the inclusion of 19-20-604 terminates when the amortization period for the teachers' retirement system's  
24 unfunded liability is 10 years or less; pursuant to sec. 4, Ch. 497, L. 1999, the inclusion of 15-38-202 terminates  
25 July 1, 2014; pursuant to sec. 10(2), Ch. 10, Sp. L. May 2000, and secs. 3 and 6, Ch. 481, L. 2003, the inclusion  
26 of 15-35-108 terminates June 30, 2010; pursuant to sec. 7, Ch. 314, L. 2005, the inclusion of 23-4-105, 23-4-202,  
27 23-4-204, 23-4-302, and 23-4-304 becomes effective July 1, 2007; and pursuant to sec. 17, Ch. 593, L. 2005,  
28 the inclusion of 15-31-906 terminates January 1, 2010.)"

29  
30 **NEW SECTION. Section 7. Codification instruction.** [Section 5] is intended to be codified as an

1 integral part of Title 15, chapter 36, part 1, and the provisions of Title 15, chapter 36, part 1, apply to [section 5].

2

3 NEW SECTION. **Section 8. Saving clause.** [This act] does not affect rights and duties that matured,  
4 penalties that were incurred, or proceedings that were begun before [the effective date of this act].

5

6 NEW SECTION. **Section 9. Effective date.** [This act] is effective July 1, 2007.

7

8 NEW SECTION. **Section 10. Applicability.** [This act] applies to wells drilled after June 30, 2007.

9

- END -